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POSSIBLE SALE OF INDONESIAN OIL TO COMMUNIST CHINA IN 1964

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POSSIBLE SALE OF INDONESIAN OIL TO COMMUNIST CHINA IN 1964

The Indonesian Minister of Basic Industries and Mining, Chaerul Saleh, recently announced that at the end of 1963 the government of Indonesia would exercise its option to take up to 20 percent of the payment due it from foreign oil companies in the form of crude oil. Saleh also stated that Indonesia reserves the right to determine to whom its oil shall be sold. These two statements, particularly in the light of the worsening Sino-Soviet relations, have given rise to renewed speculation that some Indonesian oil may be destined for Communist China. At the present time, the possibility of such a deal continues to appear unlikely. Except for negligible quantities received from Albania, Communist China has imported no crude oil since 1960, and it is estimated that current domestic production of crude oil is adequate to employ fully the existing Chinese refining capacity. Chinese imports of petroleum products, which averaged about 37,000 barrels per day (bpd) in 1962, are supplied almost entirely from the Bloc (principally the USSR), and existing trade agreements with the Bloc are assumed to cover anticipated requirements in 1963. Although total exports of petroleum from Indonesia in 1962 amounted to about 251,000 bpd of crude oil and 124,000 bpd of products, the government of Indonesia itself exported only about 20,000 bpd of crude and had no products for export. The possibility of the sale of Indonesian crude oil and/or petroleum products to Communist China in 1964, however, cannot be discounted, although such a sale would be contingent on an increase in existing refining capacity in China and/or the commandeering by the Indonesian government of products from refineries owned by foreign oil companies.

1. Availability of Petroleum to Indonesia

In 1962, production of crude oil in Indonesia amounted to about 458,000 bpd, of which about 412,000 bpd was produced by three foreign companies -- Caltex (229,000 bpd), Shell (112,000 bpd), and Stanvac (71,000 bpd). Both Shell and Stanvac have refining facilities in Indonesia, and, except for about 10,000 bpd exported by Stanvac in 1962,

the entire output of these two companies was refined locally. Caltex, on the other hand, has no local refining facilities and exports virtually all of its production, except for small quantities refined in Stanvac's facilities. On the basis of 1962 production, the government could acquire as much as 80,000 bpd of crude for disposal through its own channels in 1964, but it is estimated that the actual quantity involved, if Indonesia carries out its plan, would be about 40,000 to 45,000 bpd, roughly equivalent to 20 percent of Caltex's production. Both Shell and Stanvac export petroleum products, and the government probably would be reluctant to reduce its earnings from this source. Moreover, much of Indonesia's crude is extremely waxy and presents serious problems in handling and processing, and it is unlikely that Indonesia would be able to undertake marketing of this crude. If, however, Indonesia were to require payment in kind from Caltex alone, as much as 45,000 bpd could be supplied entirely in Duri crude or in a combination of Duri and Minas crude, both produced by Caltex, which Indonesia could handle with little or no difficulty.

2. Likely Markets

With respect to the possible sale of this amount of crude oil by the government of Indonesia in 1964, three likely customers within the economic marketing area would appear to be Communist China, Burma, and Japan. There is evidence from a variety of sources that the Chinese are expanding the Lan-chou refinery, and it is estimated that this expansion would be from the current capacity of 1.0 million metric tons (20,000 bpd) to 2.0 million metric tons (40,000 bpd) planned when the refinery was originally built. It is possible that prior to the withdrawal of Soviet technicians in mid-1960 the USSR had provided some of the equipment necessary for the expansion. If the Chinese can complete the expansion by the end of 1963, they could then provide a market for as much as 20,000 bpd of Indonesian crude at coastal refineries by diverting the crude presently supplied to these refineries to Lan-chou. Although the capacity of China's coastal refineries is estimated to be about 30,000 bpd, China's increasing domestic production of crude and possible technical difficulties in processing Indonesian crude suggest that the market in China would not exceed 20,000 bpd. Another possible

market for Indonesian crude would be the refinery at Syriam in Burma. Expansion of this plant (to be completed in the fall of 1963) would provide a market for about 10, 000 bpd of crude; moreover, a mixture of Minas crude (Caltex) and Rantau crude (Permina, a Government of Indonesia company) would be an ideal feed stock for Burma's requirements. Caltex expects to provide its crude, but, as yet, the contract has not been signed. Although Japan's production of crude oil in the Middle East is expanding rapidly, Permina currently is exporting about 24, 000 bpd to Japan, and it is possible that this market might be expanded.

3. Evaluation of Market Prospects in Communist China

The sale of Indonesian petroleum products to Communist China in 1964 seems unlikely in spite of probable Chinese interest in such products, either as part of a barter deal or with payment in hard currency if necessary. There are many indications that China is seeking to relieve its almost total dependence on the USSR for imports of products, and in 1962 the volume of Indonesian exports of products (most of which were exported by Shell) was more than three times as large as China's imports in that year. With respect to quantity, therefore, Indonesia would have no difficulty in providing the total amount required by China, but the specific types of product required probably would not be available. Indonesia already faces a problem with respect to the supply of kerosine for domestic consumption, and the quality of domestic crude precludes any significant increase in production of kerosine with existing refining facilities. China's imports in 1962 included an estimated 19, 000 bpd of kerosine and jet fuel (about 51 percent of total imports), and it is unlikely that Indonesia would be able to meet this demand. In addition to the problem of providing necessary amounts of specific products is the question of how Indonesia would acquire products for sale abroad. The government has some simple refining capacity (about 10, 000 bpd), but products from these refineries would not be suitable for foreign marketing. The proposed refinery with a capacity of 15, 000 bpd to be constructed by Rumania is still in the planning stage. Indonesia could, of course, direct the foreign companies to provide products for sale to Communist China, but, even for Indonesia, this would appear to be a

most unlikely decision. Product exports (which are more profitable than exports of crude) are currently going to Free World markets, and to divert these products to Communist China would generate no additional foreign exchange. In fact, if a barter deal were involved, such a diversion probably would represent a loss of foreign exchange. One possible means for Indonesia to acquire products would be to levy on Caltex for crude oil to be processed by the refineries owned by Shell and Stanvac. It is estimated that these refineries have excess capacity of about 30,000 bpd. In January 1963, Caltex made an oral commitment to Indonesia to provide crude for this purpose, but the intention of the government at that time was to market the products domestically, using the distribution facilities of Caltex as necessary.

Although it is most unlikely that Indonesia could or would undertake to replace the USSR as a source of petroleum products for Communist China, there is a possibility that Indonesia might supply a small quantity of the products to be imported by Communist China in 1964. From the Indonesian point of view, a decision to supply petroleum products to Communist China would appear to be based on political rather than economic considerations.

Analysts:

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